

Report Card

TEACHERS' FUND FOR RETIREMENT

MAY 2002



See What's New at
www.discovernd.com/rio

For one, a new look! The Retirement and Investment Office website is sporting a new look that captures the dual roles that TFFR and the State Investment Board play in the makeup of RIO. Don't miss the opportunity to check out the RETIREMENT BENEFIT CALCULATOR and the NEWS tab to find recent additions to the site. Visit us soon!

SUMMARY OF 2003 PROPOSED LEGISLATION

The TFFR Board has submitted administrative changes to the Legislative Employee Benefits Programs Committee for study. The proposed changes should not have an actuarial cost to the retirement plan. A complete bill draft is available at the Retirement and Investment Office.



**NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE**

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TFFR Study Bill 52

- Clarifies and updates the definition of salary to reflect the various types of salary and bonus payments that are eligible or not eligible for TFFR benefit calculation purposes.

- Updates dual membership guidelines for retirement plan participation and benefit calculations for individuals whose job duties require participation in TFFR and/or NDPERS.

- Modifies the 700 annual hour limit that a retiree may return to TFFR covered employment and continue to receive monthly benefits. Bases the annual hour limit on length of contract duties.

9 month contract = 700 hours
10 month contract = 800 hours
11 month contract = 900 hours
12 month contract = 1,000 hours

Substitute teaching, extracurricular duties, and continuing professional development do not apply to the annual hour limit.

- Incorporates federal tax law changes (EGTRRA 2001) to allow TFFR to accept eligible rollovers from traditional IRAs, qualified 401(a) and 401(k) plans, 403(b) tax sheltered annuity plans, and governmental 457 deferred compensation plans, for the purchase of TFFR service credit.

- Replaces the 5-year Term Certain and Life Option with a 20-year Term Certain and Life Option to provide a longer time period for beneficiary coverage.

continued on page 5

Is the Sky Falling?

Is Chicken Little right? Is the sky falling on TFFR pensions? After all, "I saw it with my own eyes, and heard it with my own ears, and part of it fell on my head!"

Certainly we have all seen, heard, and felt signs of a weakened economy. Enron. Arthur Anderson. Retirement security. Pension reform. Stock market decline. Recession. Daily news reports as well as our own personal experience with declining account balances makes it seem like "retirement" is not as secure as it used to be.

The TFFR Board, State Investment Board, and RIO staff are feeling those same knocks on the head. But unlike Henny Penny, Ducky Lucky, Goosey Loosey, and Turkey Lurkey, we are carefully examining the situation before blindly following Chicken Little's warnings of impending disaster. Let's consider a few facts:

1) For most teachers, TFFR is your primary source of retirement income. TFFR is a defined benefit pension plan. In a defined benefit plan, your benefits are based on a specific formula set by state law. You do not make the investment decisions nor take the investment risk; TFFR does.



Fay Kopp
Deputy Executive Director

2) The TFFR Board sets the asset allocation policy for the TFFR trust fund to ensure that "all TFFR investment eggs are not put in one basket." Diversification of investments among different companies and asset classes helps to ensure that the success or failure of one particular company or type of investment does not have a huge impact on TFFR returns.

3) The State Investment Board prudently manages and constantly monitors your investment program. The SIB employs qualified managers with high expertise in managing their assets. And while absolute returns have been dismal, relative performance has been pretty good during the poor market conditions in 2001 and 2002.

4) The fund uses conservative accounting practices such as "smoothing" to help stabilize fluctuating investment returns. "Smoothing" returns helps funds like TFFR to average plan assets over a longer period of time so that any one-year performance doesn't have as big an impact on the plan.

5) State law requires an annual audit. Under the control of the State Auditor, the independent auditing firm of Brady Martz, Inc. recently issued an unqualified or "clean" opinion of our agency's financial statements and internal controls.

6) State law also requires an annual actuarial valuation of the TFFR plan. Consequently, the soundness of your pension plan is measured each year, and reviewed by a separate actuary every ten years.

7) WE ARE LONG TERM INVESTORS. Repeat. WE ARE LONG TERM INVESTORS. What happened yesterday and today matters, but not nearly as much as what happens in the next 5 - 10 - 25 - 50 years.

It's true. Recent economic downturns and related negative investment returns in the past 24 months have affected the TFFR fund as a whole. And while TFFR members are guaranteed to receive the retirement benefit they have earned, the availability of funds today to provide for benefit improvements in the future is unknown at this time. That is why the TFFR Board is not proposing benefit improvements in the 2003 session. Although your current benefits are secure, the Board does not want to jeopardize the financial soundness of the plan by suggesting changes to the TFFR benefit structure.

TFFR will continue to use common sense, prudent investment practices, conservative accounting methods, vigorous auditing standards, and a long-term approach to keeping your pension benefits safe. And isn't that better than following Foxy Loxy's advice?

PURCHASE NOW, NOT LATER

If you do not want to be the member who said, "I should have repaid my refunded TFFR service credit as soon as I returned to teach," please keep reading. TFFR refunds repaid within five years of returning to covered employment will have the cost calculated at 6 percent interest instead of the actuarial equivalent. The longer you wait to purchase refunded service credit, the more costly it will be.

Suppose, for example, a TFFR member leaves teaching in 2002, receives a refund of \$2,000 and cancels one year of service credit. This teacher returns to teach in 2003-04 and has until June 30, 2009 to repay the refund at a 6 percent cost. If the teacher repays the refund in 2004, the cost would be approximately \$2,250, and \$2,700 in 2009. If this teacher waits to purchase the one year of refunded credit until 2010, the actuarial cost would be approximately \$3,500. This same credit would cost about \$9,000 if the teacher waited to purchase until just before retiring.

If you recently returned to TFFR covered employment and have refunds to repay, contact the administrative office for additional information.

TFFR Outreach Services

BENEFITS COUNSELING PROGRAM

Individual 30-minute benefits counseling appointments are available to all members to discuss TFFR benefits and other retirement concerns. Call 1-800-952-2970 or 328-9886 to schedule an appointment.

Grand Forks	September 10-11, 2002
Cavalier	September 12, 2002
Stanley	September 18, 2002
Crosby	September 19, 2002
LaMoure	September 24, 2002
Jamestown	September 25, 2002
Williston	October 1, 2002
Watford City	October 2, 2002
Beulah	October 9, 2002
Wahpeton	November 4, 2002
Valley City	November 5, 2002
Hettinger	November 5, 2002
Dickinson	November 6, 2002
Minot	November 19-20, 2002
Fargo	December 11-12, 2002
Casselton	December 12, 2002
Devils Lake	January 8, 2003
Bottineau	January 9, 2003
Bismarck	January 29-30, 2003
West Fargo	February 5-6, 2003

PRE-RETIREMENT SEMINARS

The six hour pre-retirement planning seminars cover TFFR benefits, financial planning, estate planning, Social Security benefits, and health insurance. The one- day seminars are held from 8:45 a.m. to 3:35 p.m. with an hour lunch (on your own). The two- day seminars are held from 4-7 p.m. each day. To register, complete the registration form and return it to the administrative office.

Dickinson	August 15, 2002
Devils Lake	August 20, 2002
Mandan	January 14-15, 2003
Jamestown	February 12-13, 2003

Pre-retirement Seminar Sites (please select one):

☐ Dickinson ☐ Devils Lake ☐ Mandan ☐ Jamestown

Name: _____ SSN: _____

Address: _____

City: _____ State: _____ Zip: _____

Home phone: _____ Work phone: _____

Will your spouse/guest be attending? ☐ Yes ☐ No

If your spouse/guest is also a teacher,
please provide SSN: _____

Mail to: ND Retirement and Investment Office
P.O. Box 7100, Bismarck, ND 58507-7100

Actuary Studies

TFFR actuarial consultants, Gabriel, Roeder, Smith & Company (GRS), recently conducted a comprehensive study of TFFR benefits. As part of the study, GRS compared TFFR with other public retirement systems and assessed the gap between the current benefits being paid to TFFR retirees and three alternative targets or goals:

- **2.00% Multiplier Goal** – original benefit, recalculated using the 2.00% multiplier, Rule of 85, and current early retirement factors.
- **TFFR Goal** – 2.00% Multiplier Goal, increased 2% per year for each year retired.
- **Full CPI Goal** – 2.00% Multiplier Goal, increased to fully restore all purchasing power lost to inflation, as measured by the Consumer Price Index (CPI).

Gap Analysis Results (see graph)

- Most retirees who retired prior to 1984 have benefits equal to or greater than 2% multiplier goal.
- Shortfall relative to the 2% multiplier goal is greatest for 1984-1993 retirees.
- Against TFFR Goal, average benefit is greater than average target for almost all groups retiring before 1978.
- Significant percentages of these longest-retired have received more than the target goals.
- Gaps are smaller for recent retirees, as expected, since they retired under higher multipliers and have lost less to inflation.

Gap Analysis Example:

To understand how these goals relate to current retiree benefits, let's use the 1988 retirees as an example.

Average Current Benefit:	\$1,044
Average 2% Multiplier Goal:	\$1,221
Average TFFR Goal:	\$1,579
Average Full CPI Goal:	\$1,831

You can see that as a group, the benefits for retirees who retired in 1988 have not kept up with the target goals listed above.

TFFR Benefits

Current \$2/\$1 Approach

The study also examined what would happen to new retirees if future retiree increases were based on the current approach of giving ad hoc increases of \$2.00 X service plus \$1.00 X years retired and projected the impact on some hypothetical retirees if this practice were continued. In general, it was found that the current practice favors retirees who retired with lower-than-average salary, and provides smaller increases to retirees who left with higher-than-average salary. The report indicates that this practice may not be considered equitable to all retirees and that substituting a percentage increase for a dollar-based increase will more equitably preserve the purchasing power of all teachers who retire at the same time.

Types of Increases and Effect on Margin

The report outlined the impact of either ad hoc or automatic benefit increases on the future availability of margin. According to the actuarial consultants, it doesn't matter if available margin is spent on one large increase, payable immediately, or spent on a series of smaller

As economic conditions change in the future, the TFFR Board will consider the benefit improvement structure recommended by the Retiree Study.

increases payable over the next several years or over the lifetime of the retirees. Both methods have the same actuarial impact, and both methods use up the same amount of margin.

During the 2001 legislative session, some people expressed concerns that if automatic increases were adopted, TFFR would lose flexibility. But according to the study, TFFR loses flexibility no matter what kind of benefit improvements are adopted. It is the spending of margin on a benefit improvement that takes away flexibility, not the structure of the improvement. The key point is that the increases under either approach have the same present value, and either type of increase will eliminate the same amount of margin.

Report Recommendations

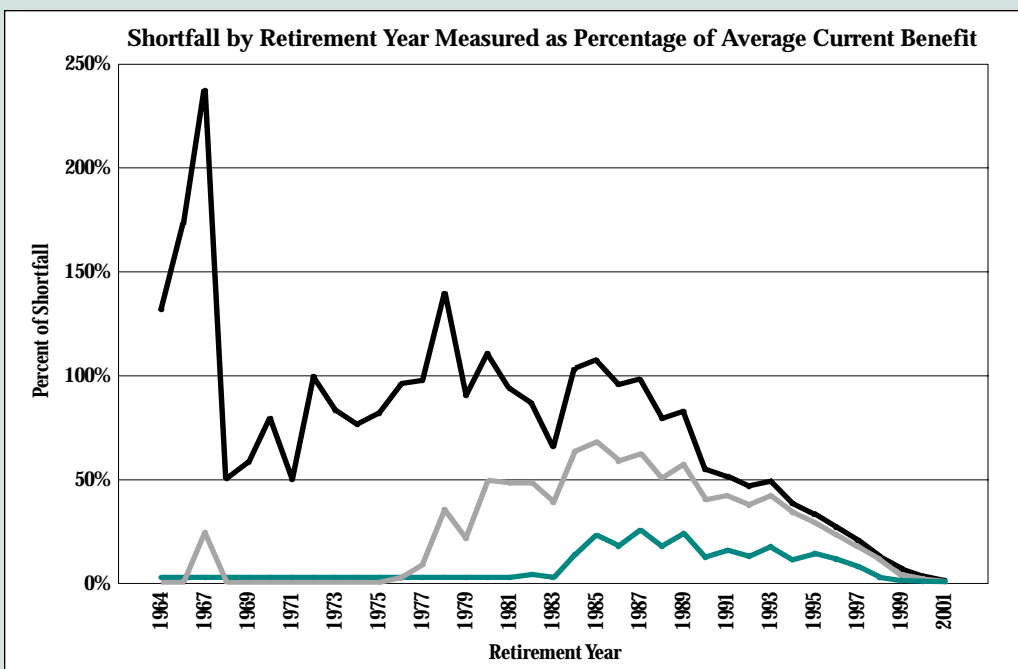
The actuary indicated that the TFFR Goal of a 2% multiplier and 2.0% postretirement increases appears to be a reasonable goal. However, because of the variety of approaches that have been used to determine ad

hoc benefit improvements in the past, on average, teachers who retired in the late 1960's and early 1970's already have met the goal, while many who left in the 1978-1993 period are far behind. Therefore, the actuary recommends a targeted increase that varies by year of retirement and includes a minimum increase for all retirees. These types of increases could be phased in over a number of years, as actuarial margin becomes available.

TFFR Board

As mentioned in the last newsletter, due to uncertain economic conditions at this time, the TFFR Board is not proposing any benefit improvements or other legislative changes in 2003 that would require actuarial margin or increased contribution rates to fund the changes. Although TFFR currently has a positive margin, the Board is concerned that the margin could be eroded by future poor investment experience during this volatile period.

As economic conditions change in the future, the TFFR Board will consider the benefit improvement structure recommended by the Retiree Study.



Federal Law Change Expands Retirement Savings Opportunities

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 will expand retirement savings opportunities for most workers. The bill contains provisions that increase contributions limits and expand portability. Following are a few highlights:

Contribution Limits

- Defined benefit dollar limit increased from \$140,000 in 2001 to \$160,000 in 2002, and indexed to inflation in \$5,000 increments thereafter.
- Annual compensation limit that can be used in benefit calculations increased from \$170,000 in 2001 to \$200,000 in 2002, and indexed to inflation in \$5,000 increments thereafter.
- Contribution limits to a defined contribution plan increased from 25% of compensation not to exceed \$35,000 in 2001 to 100% of compensation not to exceed \$40,000 and indexed to inflation in \$1,000 increments in 2002.
- Elective deferrals to 401(k) and 403(b) plans increased from \$10,500 in 2001 to \$11,000 in 2002 then by \$1,000 each year to \$15,000 in 2006.
- Allows individuals age 50 and above to make additional catch up contributions to 401(k), 403(b), SEP, or 457 plans of \$1,000 in 2002 and increased \$1,000 each year to \$5,000 in 2006.
- Contribution limits for traditional and Roth IRAs increased from \$2,000 in 2001 to \$3,000 in 2002 through 2004, \$4,000 in 2005 through 2007, and \$5,000 in 2008.
- Individuals who have attained age 50 may make additional catch up contributions to a traditional or Roth IRA of \$500 in 2002 through 2005 and \$1,000 in 2006 and later.
- Beginning in 2002 and expiring in 2006, a tax credit is available to individuals in specific income categories who make pretax contributions. The credit is calculated as a percentage of the first \$2,000 contributed and the percentage is based on adjusted gross income.

Portability

- Allows rollovers between IRAs, 457 governmental plans, 403(b) tax sheltered annuities, 401(k) plans and qualified plans under 401(a).
- Participants of defined benefit plans, like TFFR, may purchase service credit using 403(b) or 457 dollars. This feature may be available to TFFR members on August 1, 2003, if proposed legislation is passed.
- After tax employee contributions may be included in rollovers to an IRA or an eligible retirement plan that will accept and account for after tax contributions and earnings separately.

The IRS has published a revised Special Tax Notice due to the implementation of EGTRRA. This notice will be included with TFFR refund materials and should be thoroughly reviewed prior to completing a Refund Application. The major revisions to the notice allow rollovers from TFFR to 403(a) annuity plans, 403(b) tax sheltered annuity plans, and 457 governmental plans in addition to traditional IRAs, 401(a) and 401(k) plans. After-tax contributions that previously had to be paid to the member may now be rolled over to an IRA or to an eligible employer plan that will accept these non taxable amounts.

Contact your financial or tax advisor for more information on how these changes may affect you.

Summary of Legislation

continued from cover story

- Adds a Partial Lump Sum Distribution Option (PLSO) for members eligible for an unreduced retirement annuity to provide a lump sum cash payment in exchange for a permanent monthly benefit reduction.

Member makes a one time election at retirement to receive a lump sum payment equal to 12 times the amount of the Single Life Annuity payable at the same time the monthly retirement annuity begins.

The monthly retirement option selected is actuarially reduced to reflect the partial lump sum payment. Generally, the actuarial reduction for a PLSO is approximately 10 percent.

This option is not available to members who select the level income option, members receiving disability benefits, or to beneficiaries of deceased members.

Example:

Jane retires on August 1, 2003 with the Rule of 85. Her Single Life Annuity Benefit is \$1,700 per month. She may elect the regular retirement option and receive \$1,700 per month for life or receive a Partial Lump Sum Distribution of \$20,400 (\$1,700 x 12) and a lifetime benefit of \$1,530 per month.

Retirees using the PLSO may also select a Joint & Survivor Option or Term Certain Option to provide a continuing benefit to a beneficiary. These options would require another actuarial reduction to the \$1,530.

Should I Refund My TFFR Account?

Are you a vested member with TFFR? Are you terminating your teaching employment and considering taking a refund of your account value?

Consider the following before applying for a refund.

- As a vested member, you have the right to leave your money in TFFR until you become eligible to draw monthly lifetime benefits. Eligible retirement dates are Rule of 85, age 55, age 65, or any age in between.

- If you would die before beginning your retirement benefits, your designated beneficiary could receive monthly survivor benefits for life.

- Health insurance benefits with NDPERS would be available to you, your beneficiary and eligible dependents when monthly benefits begin.

If you choose to take a refund of your account value, which consists of member contributions and six percent interest earned, your account with TFFR will be closed and all service credit forfeited. By choosing this option, you waive any rights to future monthly retirement benefits.

However, if you return to TFFR covered employment, you have the option of repurchasing the refund.

The refund payment can be paid to you or rolled over to an IRA or other eligible employer plan. Since the refund is primarily taxable income, the decision you make will affect the income tax you owe.

If the refund is paid directly to you, TFFR is required to withhold 20% of the taxable portion for federal income tax. If you receive the payment before age 55, you may have to pay an additional 10% tax penalty.

To assist you in your decision making process, contact a TFFR retirement program specialist for deferred retirement benefit estimates, information on the refundable amount, and the application forms necessary to complete your refund.

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